

**RURAL WATER DISTRICT NO. 3, OSAGE COUNTY**  
**ANNUAL FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2021 AND 2020**

RURAL WATER DISTRICT NO. 3, OSAGE COUNTY  
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YEARS ENDED DECEMBER 31, 2021 AND 2020

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## Independent Auditor's Report

Board of Directors  
Rural Water District No. 3, Osage County

### Opinions

We have audited the accompanying financial statements of Rural Water District No. 3, Osage County which comprise the statements of assets, liabilities and net position as of December 31, 2021 and 2020 and the related statements of activity and of cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above, present fairly, in all material respects, the net position of Rural Water District No. 3, Osage County as of December 31, 2021 and 2020 and the changes in net position and its cash flows for the years then ended in accordance with the modified cash basis of accounting.

### Basis of Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Rural Water District No. 3, Osage County and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Rural Water District No. 3, Osage County's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Rural Water District No. 3, Osage County's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about Rural Water District No. 3, Osage County's ability to continue as a going concern for a reasonable period of time.

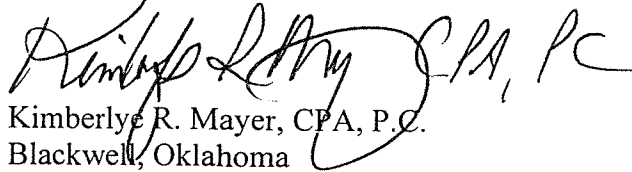
We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

### ***Emphasis of Matter - Basis of Accounting***

We draw attention to Note 1 of the financial statements that describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

### Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated August 25, 2022 on our consideration of Rural Water District No. 3, Osage County's internal control over financial reporting and on our tests of its compliance with certain laws, regulations, contracts and grants and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of the Rural Water District No. 3, Osage County's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Rural Water District No. 3, Osage County's internal control over financial reporting and compliance.

A handwritten signature in black ink, appearing to read "Kimberley R. Mayer, CPA, P.C.", is written over the printed name and title.

Kimberly R. Mayer, CPA, P.C.  
Blackwell, Oklahoma  
August 25, 2022

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT  
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
*GOVERNMENT AUDITING STANDARDS*

Board of Directors  
Rural Water District No. 3, Osage County

We have audited the financial statements of Rural Water District No. 3, Osage County as of and for the year ended December 31, 2021 and have issued our report thereon dated August 25, 2022. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements were prepared on the modified cash basis of accounting which is a basis of accounting other than accounting principles generally accepted in the United States of America.

**Report on Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Rural Water District No. 3, Osage County's internal control over financial reporting (internal control) to as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Rural Water District No. 3, Osage County's internal control. Accordingly, we do not express an opinion on the effectiveness of the Rural Water District No. 3, Osage County's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a certain deficiency in internal control, described in the accompanying findings and responses as item 2021-1, that we consider to be a material weakness.

**Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Rural Water District No. 3, Osage County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

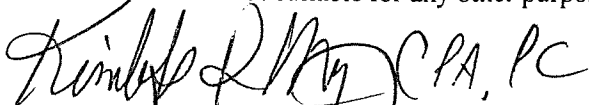
We noted matters involving the internal control and its operation that we reported to the management of Rural Water District No. 3, Osage County in a separate letter dated August 25, 2022.

### **Rural Water District No. 3, Osage County's Response to Findings**

*Government Auditing Standards* requires the auditor to perform limited procedures on the Rural Water District No. 3, Osage County's response to the findings identified in our audit and described in the accompanying schedule of findings and responses. Rural Water District No. 3, Osage County's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink, appearing to read "Kimberley R. Mayer, CPA, P.C.", with a large, stylized flourish at the end.

Kimberly R. Mayer, CPA, P.C.  
Blackwell, Oklahoma  
August 25, 2022

RURAL WATER DISTRICT NO. 3, OSAGE COUNTY  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED DECEMBER 31, 2021

**2021-1:**

**Material Weakness in Internal Control Over Financial Reporting: Inadequate Segregation of Duties:**

Criteria:

The segregation of duties and responsibilities between different individuals and the reconciliation of those asset accounts is an important control activity needed to adequately protect the entity's assets and ensure accurate financial reporting.

Condition:

Presently, the same individual is responsible for water service billings and receiving payments; making and recording deposits; and maintaining billing registers. Only limited oversight is provided over this individual in the conduct of their daily functions.

Cause:

The entity's limited size has made it difficult for management to fully segregate the duties.

Effect or Potential Effect:

Without sufficient segregation of duties, the risk significantly increases that errors and/or fraud related to the water billing and collection activities, including misappropriation of assets, could occur and not be detected within a timely basis.

Recommendation:

The board should evaluate the risks associated with the lack of segregation of duties and consider implementing controls that could mitigate these risks.

Board's Response:

The board has concluded that due to the limited number of personnel, an adequate segregation of duties is not achievable and that the cost of correcting the weakness would exceed the benefits that would be derived from it.



FINANCIAL STATEMENTS  
AND  
NOTES

RURAL WATER DISTRICT NO. 3, OSAGE COUNTY  
STATEMENTS OF FINANCIAL POSITION  
MODIFIED CASH BASIS  
DECEMBER 31, 2021 AND 2020

ASSETS

	<u>2021</u>	<u>2020</u>
Current Assets:		
Cash and cash equivalents	\$ 542,241	\$ 463,205
Certificates of deposit	245,000	165,000
Total Current Assets	<u>787,241</u>	<u>628,205</u>
Other Assets:		
Intangible assets (Note 3)	33,607	33,607
Work in progress		
Property, plant and equipment (net of accumulated depreciation) (Note 4)	19,092 <u>1,145,646</u>	 <u>1,221,092</u>
Total Assets	<u>\$ 1,985,586</u>	<u>\$ 1,882,904</u>

LIABILITIES AND NET ASSETS

Current Liabilities:		
Payroll taxes payable	\$	\$
Current portion of notes payable (Note 5)	<u>                    </u>	<u>                    </u>
Total Current Liabilities		
Notes Payable (Note 5)	<u>                    </u>	<u>                    </u>
Total Liabilities		
Net Assets:		
Unrestricted	1,985,586	1,882,904
Restricted		
Total Net Assets	<u>1,985,586</u>	<u>1,882,904</u>
Total Liabilities and Net Assets	<u>\$ 1,985,586</u>	<u>\$ 1,882,904</u>

The accompanying report and notes are an integral part of these financial statements.

RURAL WATER DISTRICT NO. 3, OSAGE COUNTY  
STATEMENTS OF ACTIVITY  
MODIFIED CASH BASIS  
YEARS ENDED DECEMBER 31, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
Changes in Unrestricted Net Assets:		
Revenues:		
Water service	\$ 543,569	\$ 495,259
Membership fees	9,000	26,400
Other income	5,850	7,155
Interest income	3,832	3,750
Total Unrestricted Revenue	<u>562,251</u>	<u>532,564</u>
Assets released from restriction		
Total Revenue	<u>562,251</u>	<u>532,564</u>
Operating Expenses:		
Payroll	36,686	30,686
Payroll taxes	2,753	2,548
Contract labor	81,450	66,000
Water purchases	203,851	187,284
Water samples, lab & DEQ	5,112	6,034
Repairs and maintenance	15,327	30,202
Electricity	8,834	7,703
Office utilities and phone	6,243	5,253
Insurance and bonds	9,834	7,716
Depreciation	76,345	73,584
Professional fees	2,190	2,640
Office expenses	8,292	9,063
Licenses and dues	1,869	2,376
Other expenses	783	665
Interest expense		448
Total Operating Expenses	<u>459,569</u>	<u>432,202</u>
Increase (decrease) in unrestricted net assets	102,682	100,362
Changes in temporarily restricted net assets		
Assets released from restrictions		
Changes in permanently restricted net assets		
Increase (decrease) in net assets	102,682	100,362
Net assets, beginning of year	<u>1,882,904</u>	<u>1,782,542</u>
Net assets, end of year	<u><u>\$ 1,985,586</u></u>	<u><u>\$ 1,882,904</u></u>

The accompanying report and notes are an integral part of these financial statements.

RURAL WATER DISTRICT NO. 3, OSAGE COUNTY  
STATEMENTS OF CASH FLOWS  
MODIFIED CASH BASIS  
YEARS ENDED DECEMBER 31, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Cash received from customers	\$ 558,419	\$ 528,814
Other operating receipts		
Interest on cash and investments	3,832	3,750
Interest payments on debt		(448)
Cash payments to suppliers for goods and services	(346,538)	(327,484)
Cash payments to employees	<u>(36,686)</u>	<u>(30,686)</u>
Net cash provided (used) by operating activities	179,027	173,946
Cash flows from non-capital financing activities:		
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(19,991)	(99,466)
Acquisition of easements		
Principle payments on debt		(64,606)
New borrowings		
Net cash provided (used) by financing activities	<u>(19,991)</u>	<u>(164,072)</u>
Cash flows from investing activities:		
(Increase) decrease in certificates of deposit	(80,000)	80,000
(Increase) decrease in restricted accounts		
Net cash provided (used) by investing activities	<u>(80,000)</u>	<u>80,000</u>
Net increase (decrease) in cash and cash equivalents	79,036	89,874
Beginning cash and cash equivalents	463,205	373,331
Ending cash and cash equivalents	<u>\$ 542,241</u>	<u>\$ 463,205</u>
Reconciliation of income (loss) from operations to net cash provided (used) by operating activities:		
Increase (decrease) in net assets	\$ 102,682	\$ 100,362
Adjustments to reconcile income (loss) to net cash provided (used) by operating activities:		
Depreciation	76,345	73,584
Changes in assets and liabilities:		
Increase (decrease) in payroll taxes due		
Net cash provided (used) by operating activities	<u>\$ 179,027</u>	<u>\$ 173,946</u>

The accompanying report and notes are an integral part of these financial statements.

RURAL WATER DISTRICT NO. 3, OSAGE COUNTY  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2021 AND 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Organization

The Rural Water District No. 3, Osage County, a non-profit corporation, was incorporated pursuant to the Oklahoma Non-Profit Corporation Act of 1968, Title 18 of the laws of the state of Oklahoma. The District is exempt from federal and state income taxes under Section 501(c)(12) of the United States Internal Revenue Code. The purpose of the District is to provide for the use and benefit of its members, a waterworks and distribution system and sewage disposal system.

Basis of Accounting

The District maintains its records and prepares its financial statement on the modified cash basis of accounting. Under the modified cash basis, revenues are recognized when received, rather than when earned and expenditures are recognized as expenses when paid, rather than when incurred. Fixed assets are recorded at cost when purchased. Annual depreciation is calculated on a straight-line basis over the estimated useful lives of the assets.

Investments

Cash and investments are maintained in financial institutions which provide coverage to depositors through the Federal Deposit Insurance Corporation. At December 31, 2021 all of the District's deposits were fully insured. At December 31, 2020, the District had deposits in excess of the FDIC coverage of \$134,766.

Cash and Cash Equivalents

The District considers the operating account and deposits with a maturity of three months or less to be cash equivalents.

NOTE 2 – JOINT ACCOUNT:

The District had a project in construction with another water district. A joint bank account was opened for the construction costs. At December 31, 2021 and 2020, this account had a balance of \$1,034 and \$1,059 respectively.

NOTE 3 – INTANGIBLE ASSETS:

The District acquired two easements during 2017 for \$33,607. The District is required to perform an annual evaluation of these intangible assets. The District has performed this evaluation and has determined that no impairments are necessary as the fair market values exceed the carrying costs as of December 31, 2021 and 2020.

RURAL WATER DISTRICT NO. 3, OSAGE COUNTY  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2021 AND 2020

NOTE 4 – PROPERTY, PLANT AND EQUIPMENT AND EASEMENTS:

Depreciable assets are recorded at cost when purchased or constructed. Depreciation is calculated on a straight-line basis over the estimated useful lives of the depreciable assets. Total depreciation for the year ended December 31, 2021 and 2020 was \$76,345 and \$73,584 respectively. The balances for depreciable assets by major category are as follows:

	12/31/2020	Additions	12/31/2021
Waterline system	\$ 1,591,902	\$	\$ 1,591,902
Road, fence and bridge	10,815		10,815
Pump station	245,826		245,826
Pump station equipment	220,496		220,496
Jointly owned pipeline	269,362		269,362
Shop building	71,072		71,072
Office furniture and fixtures	7,144	899	8,043
	2,416,617	899	2,417,516
Less accumulated depreciation	(1,200,425)	(76,345)	(1,276,770)
	1,216,192	(75,446)	1,140,746
Land	4,900		4,900
Totals	<u>\$ 1,221,092</u>	<u>\$ (75,446)</u>	<u>\$ 1,145,646</u>

NOTE 5 – NOTES PAYABLE:

The District had no debt at December 31, 2021.

NOTE 6 – ESTIMATES:

The preparation of financial statements in conformity with the modified cash basis of accounting requires the use of management estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

NOTE 7 – RISK MANAGEMENT:

The District is exposed to various risks of losses related to torts: thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District manages this risk through the purchase of commercial insurance policies. Claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered. There were no claims during the year ended December 31, 2021.

RURAL WATER DISTRICT NO. 3, OSAGE COUNTY  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2021 AND 2020

NOTE 8 – CONTINGENCIES:

As of December 31, 2021, the District did not have any pending litigation or potential non-disclosed liabilities that management believes would have a material effect on the financial statements.

NOTE 9 – INCOME TAXES:

The District is a not-for-profit organization that is exempt from income taxes under Section 501 (c)(12) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation.

The District's Forms 990, *Return of Organization Exempt from Income Tax*, for the fiscal years ending 2019, 2020 and 2021 are subject to examination by the IRS, generally for three years after they were filed.

NOTE 10 – FAIR VALUES OF FINANCIAL INSTRUMENTS:

The definition of fair value for financial reporting, establishes a framework for measuring fair value, and requires additional disclosure about the use of fair value measurements in an effort to make the measurement of fair value more consistent and comparable.

**Level 1:** Quoted prices in active markets for identical securities.

**Level 2:** Other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment spread and credit risk).

**Level 3:** Significant unobservable inputs (including the District's own assumptions in determining the fair value of investments).

The District's financial instruments include cash and cash equivalents, certificates of deposit, and notes payable. The District's estimate of the fair value of all financial instruments does not differ materially from the aggregate carrying value of its financial instruments recorded in the accompanying statement of net position. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

NOTE 11 – EVALUATION OF SUBSEQUENT EVENTS:

The District has evaluated subsequent events through August 25, 2022 the date which the financial statements were available to be issued.